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**TOWN OF ERATH
ERATH, LOUISIANA
FINANCIAL REPORT
JUNE 30, 2006**

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Release Date 11-1-2006

C O N T E N T S

	Exhibit/ Schedule	Page
INDEPENDENT AUDITORS' REPORT ON THE FINANCIAL STATEMENTS	-	1 and 2
BASIC FINANCIAL STATEMENTS		
Statement of Net Assets	A	4 and 5
Statement of Activities	B	6 and 7
Balance Sheet - Governmental Funds	C	8
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Assets	D	9
Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds	E	10
Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities	F	11
Statement of Net Assets - Proprietary Funds - Business-Type Activities - Enterprise Funds	G	12 and 13
Statement of Revenues, Expenses, and Changes in Fund Net Assets - Proprietary Funds - Business-Type Activities - Enterprise Funds	H	14
Statement of Cash Flows - Proprietary Funds - Business-Type Activities - Enterprise Funds	I	16 and 17
Statement of Fiduciary Net Assets - Fiduciary Fund	J	18
Notes to Financial Statements	-	19 - 36
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule:		
General Fund	K-1	38
Sales Tax Fund	K-2	40 and 41
Notes to Budgetary Comparison Schedules	K-3	42
OTHER SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule - Detail of Revenues - General Fund	L-1	44
Budgetary Comparison Schedule - Detail of Expenditures - General Fund	L-2	46 and 47
Budgetary Comparison Schedule - Nonmajor Governmental Fund - Special Parish Tax Fund	L-3	48 and 49
Statement of Operating Revenues and Operating Expenses by Department - Utility Fund	L-4	50

	Exhibit/ Schedule	Page
COMPLIANCE AND OTHER GRANT INFORMATION		
REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH <u>GOVERNMENT AUDITING STANDARDS</u>	-	53 and 54
Schedule of Findings and Questioned Costs	M-1	55 - 57
Schedule of Prior Findings	M-2	58 and 59



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INDEPENDENT AUDITORS' REPORT

The Honorable George Dupuis, Mayor,
and the Board of Aldermen
Town of Erath, Louisiana

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Erath, Louisiana, as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Town's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards for financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Erath, Louisiana, as of June 30, 2006, and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated August 10, 2006, on our consideration of the Town of Erath, Louisiana's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

The Town of Erath, Louisiana has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of the basic financial statements.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the Town of Erath, Louisiana's basic financial statements. The accompanying financial information listed as other supplementary information and the budgetary comparison schedules listed as required supplementary information in the table of contents, are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Broussard, Roche, Lewi & Breaux, L.L.P.

Lafayette, Louisiana
August 10, 2006

BASIC FINANCIAL STATEMENTS

TOWN OF ERATH, LOUISIANA

STATEMENT OF NET ASSETS
June 30, 2006

ASSETS	Governmental Activities	Business-Type Activities	Total
Cash	\$ 192,571	\$ 350,047	\$ 542,618
Certificates of deposit	11,539	876,943	888,482
Accounts receivable, net	-	234,110	234,110
Unbilled service receivable, net	-	67,011	67,011
Due from other governmental agencies	137,671	58,065	195,736
Internal balances	217,023	(217,023)	-
Restricted assets:			
Cash	-	216,760	216,760
Certificates of deposit	-	102,441	102,441
Capital assets:			
Non-depreciable	253,388	104,343	357,731
Depreciable, net	<u>692,584</u>	<u>5,919,597</u>	<u>6,612,181</u>
 Total assets	 <u>\$ 1,504,776</u>	 <u>\$ 7,712,294</u>	 <u>\$ 9,217,070</u>

LIABILITIES AND NET ASSETS	Governmental Activities	Business-Type Activities	Total
Liabilities:			
Accounts payable and accrued expenses	\$ 39,788	\$ 111,825	\$ 151,613
Due to external parties	4,265	-	4,265
Due to other governmental agencies	2,348	-	2,348
Customers' deposits	-	62,795	62,795
Accrued interest on bonds	-	11,019	11,019
Deferred revenue	18,162	-	18,162
Long-term liabilities -			
Portion due or payable within one year:			
Revenue bonds payable	-	62,785	62,785
Portion due or payable after one year:			
Revenue bonds payable	-	670,876	670,876
Total liabilities	\$ 64,563	\$ 919,300	\$ 983,863
Net assets:			
Invested in capital assets, net of related debt	\$ 945,972	\$ 5,290,279	\$ 6,236,251
Restricted for -			
Sales tax dedications	360,409	-	360,409
Debt service	-	245,387	245,387
Unrestricted	133,832	1,257,328	1,391,160
Total net assets	\$ 1,440,213	\$ 6,792,994	\$ 8,233,207
Total liabilities and net assets	\$ 1,504,776	\$ 7,712,294	\$ 9,217,070

See Notes to Financial Statements.

TOWN OF ERATH, LOUISIANA

STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

		Program Revenues		
		Fees, Fines and Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions
	Expenses			
Governmental activities:				
General government	\$ 309,372	\$ 10,800	\$ 390	\$ -
Public safety	418,783	143,185	52,751	58,061
Public works	110,513	-	3,582	-
Health and welfare	4,822	-	2,930	-
Culture and recreation	36,252	-	-	-
Total governmental activities	<u>\$ 879,742</u>	<u>\$ 153,985</u>	<u>\$ 59,653</u>	<u>\$ 58,061</u>
Business-type activities:				
Electric	\$1,435,532	\$ 1,836,887	\$ 37,350	\$ -
Water	311,709	253,853	4,838	-
Sewer	255,088	127,661	17,928	-
Total business-type activities	<u>\$2,002,329</u>	<u>\$ 2,218,401</u>	<u>\$ 60,116</u>	<u>\$ -0-</u>
Total	<u>\$2,882,071</u>	<u>\$ 2,372,386</u>	<u>\$ 119,769</u>	<u>\$ 58,061</u>

General revenues:

Taxes -
 Property
 Sales and use
 Franchise
 Other
 Licenses and permits
 Grants and contributions not restricted to
 specific programs
 Loss on sale of capital assets
 Miscellaneous
 Investment earnings
 Transfers

Total general revenues and transfers

Change in net assets

Net assets, beginning

Net assets, ending

See Notes to Financial Statements.

Net (Expense) Revenue and
Change in Net Assets

<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total</u>
\$ (298,182)	\$ -	\$ (298,182)
(164,786)	-	(164,786)
(106,931)	-	(106,931)
(1,892)	-	(1,892)
<u>(36,252)</u>	<u>-</u>	<u>(36,252)</u>
 \$ (608,043)	 \$ -0-	 \$ (608,043)
 \$ -	 \$ 438,705	 \$ 438,705
-	(53,018)	(53,018)
<u>-</u>	<u>(109,499)</u>	<u>(109,499)</u>
 \$ -0-	 \$ 276,188	 \$ 276,188
<u>\$ (608,043)</u>	<u>\$ 276,188</u>	<u>\$ (331,855)</u>
 \$ 20,150	 \$ -	 \$ 20,150
262,766	-	262,766
19,082	-	19,082
2,910	-	2,910
74,582	-	74,582
9,934	-	9,934
(7,080)	(10,042)	(17,122)
9,161	9,647	18,808
180	25,022	25,202
373,750	(373,750)	-
<u>\$ 765,435</u>	<u>\$ (349,123)</u>	<u>\$ 416,312</u>
 \$ 157,392	 \$ (72,935)	 \$ 84,457
<u>1,282,821</u>	<u>6,865,929</u>	<u>8,148,750</u>
<u>\$ 1,440,213</u>	<u>\$ 6,792,994</u>	<u>\$8,233,207</u>

TOWN OF ERATH, LOUISIANA

BALANCE SHEET
GOVERNMENTAL FUNDS
June 30, 2006

ASSETS	General	Sales Tax	Other Governmental Fund	Total Governmental Funds
Cash	\$ 84,515	\$ 104,021	\$ 4,035	\$ 192,571
Certificates of deposit	-	11,539	-	11,539
Due from other governmental agencies	78,410	26,281	966	105,657
Due from other funds	<u>81,964</u>	<u>218,567</u>	<u>-</u>	<u>300,531</u>
Total assets	<u>\$244,889</u>	<u>\$ 360,408</u>	<u>\$ 5,001</u>	<u>\$ 610,298</u>
LIABILITIES AND FUND BALANCES				
Liabilities:				
Accounts payable and accrued expenses	\$ 30,305	\$ 5,185	\$ 4,298	\$ 39,788
Due to other funds	60,242	26,828	703	87,773
Due to other governmental agencies	2,348	-	-	2,348
Deferred revenue	<u>18,162</u>	<u>-</u>	<u>-</u>	<u>18,162</u>
Total liabilities	<u>\$111,057</u>	<u>\$ 32,013</u>	<u>\$ 5,001</u>	<u>\$ 148,071</u>
Fund balances:				
Unreserved and undesignated	<u>\$133,832</u>	<u>\$ 328,395</u>	<u>\$ -0-</u>	<u>\$ 462,227</u>
Total liabilities and fund balances	<u>\$244,889</u>	<u>\$ 360,408</u>	<u>\$ 5,001</u>	<u>\$ 610,298</u>

See Notes to Financial Statements.

TOWN OF ERATH, LOUISIANA

RECONCILIATION OF THE GOVERNMENTAL FUNDS
BALANCE SHEET TO THE STATEMENT OF NET ASSETS
June 30, 2006

Total fund balances - governmental funds	\$ 462,227
Total net assets reported for governmental activities in the statement of net assets is different because:	
Capital assets used in governmental activities are not financial resources and therefore are not reported in the funds.	
Capital assets, net	945,972
Some revenues were not considered measurable at year end and therefore not available soon enough to pay for current period expenditures.	<u>32,014</u>
Total net assets of governmental activities	<u>\$1,440,213</u>

See Notes to Financial Statements.

TOWN OF ERATH, LOUISIANA

STATEMENT OF REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended June 30, 2006

	General	Sales Tax	Other Governmental Fund	Total Governmental Funds
Revenues:				
Taxes	\$ 42,142	\$ 249,071	\$ 24,802	\$ 316,015
Licenses and permits	74,582	-	-	74,582
Intergovernmental	98,298	3,582	966	102,846
Charges for services	47,733	-	-	47,733
Fines and forfeits	95,452	-	-	95,452
Investment earnings	-	180	-	180
Miscellaneous	14,962	5,000	-	19,962
Total revenues	\$ 373,169	\$ 257,833	\$ 25,768	\$ 656,770
Expenditures:				
Current -				
General government	\$ 294,655	\$ 1,788	\$ 790	\$ 297,233
Public safety	306,921	-	74,540	381,461
Public works	-	86,329	-	86,329
Health and welfare	4,822	-	-	4,822
Culture and recreation	31,754	-	-	31,754
Capital outlay	76,457	4,361	3,314	84,132
Total expenditures	\$ 714,609	\$ 92,478	\$ 78,644	\$ 885,731
Excess (deficiency) of revenues over expenditures	\$ (341,440)	\$ 165,355	\$ (52,876)	\$ (228,961)
Other financing sources (uses):				
Transfers in	\$ 420,000	\$ -	\$ 52,876	\$ 472,876
Transfers out	(52,876)	(46,250)	-	(99,126)
Total other financing sources (uses)	\$ 367,124	\$ (46,250)	\$ 52,876	\$ 373,750
Net change in fund balances	\$ 25,684	\$ 119,105	\$ -0-	\$ 144,789
Fund balances, beginning	108,148	209,290	-	317,438
Fund balances, ending	\$ 133,832	\$ 328,395	\$ -0-	\$ 462,227

See Notes to Financial Statements.

TOWN OF ERATH, LOUISIANA

RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES, AND CHANGES IN FUND BALANCES OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended June 30, 2006

Net change in fund balances - total governmental funds			\$ 144,789
The change in net assets reported for governmental activities in the statement of activities is different because:			
Governmental funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and is reported as depreciation expense.			
Capital outlay	\$ 84,132		
Depreciation expense	<u>(78,144)</u>	5,988	
The net effect of various miscellaneous transactions involving capital assets, such as sales, trade-ins, donations, and disposals is to decrease net assets.			(7,080)
Because some revenues are not measurable at year end, they are not considered available revenues in the governmental funds.			
Sales taxes			<u>13,695</u>
Change in net assets of governmental activities			<u>\$ 157,392</u>

See Notes to Financial Statements.

TOWN OF ERATH, LOUISIANA

STATEMENT OF NET ASSETS
 PROPRIETARY FUNDS
 BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS
 June 30, 2006

ASSETS	<u>Utility</u>	<u>Sewerage Utility</u>	<u>Total</u>
CURRENT ASSETS			
Cash	\$ 327,917	\$ 22,130	\$ 350,047
Certificates of deposit	829,645	47,298	876,943
Accounts receivable, net	222,007	12,103	234,110
Unbilled service receivable, net	67,011	-	67,011
Due from other funds	55,977	4,357	60,334
Due from other governmental agencies	<u>40,137</u>	<u>17,928</u>	<u>58,065</u>
Total current assets	<u>\$ 1,542,694</u>	<u>\$ 103,816</u>	<u>\$ 1,646,510</u>
RESTRICTED ASSETS			
Cash	\$ 49,804	\$ 166,956	\$ 216,760
Certificates of deposit	<u>54,461</u>	<u>47,980</u>	<u>102,441</u>
Total restricted assets	<u>\$ 104,265</u>	<u>\$ 214,936</u>	<u>\$ 319,201</u>
CAPITAL ASSETS			
Land	\$ 44,410	\$ 32,253	\$ 76,663
Buildings	8,439	556,769	565,208
Utility plant in service	4,252,283	3,358,755	7,611,038
Equipment	266,542	158,610	425,152
Accumulated depreciation	(1,175,755)	(1,506,046)	(2,681,801)
Construction in progress	<u>27,680</u>	<u>-</u>	<u>27,680</u>
Total capital assets	<u>\$ 3,423,599</u>	<u>\$ 2,600,341</u>	<u>\$ 6,023,940</u>
Total assets	<u>\$ 5,070,558</u>	<u>\$ 2,919,093</u>	<u>\$ 7,989,651</u>

LIABILITIES AND NET ASSETS	Utility	Sewerage Utility	Total
CURRENT LIABILITIES (payable from current assets):			
Accounts payable and accrued expenses	\$ 107,311	\$ 4,514	\$ 111,825
Due to other funds	199,773	77,584	277,357
Total	<u>\$ 307,084</u>	<u>\$ 82,098</u>	<u>\$ 389,182</u>
CURRENT LIABILITIES (payable from restricted assets):			
Customers' deposits	\$ 62,795	\$ -	\$ 62,795
Revenue bonds payable, due currently	17,000	45,785	62,785
Accrued interest on bonds	6,769	4,250	11,019
Total	<u>\$ 86,564</u>	<u>\$ 50,035</u>	<u>\$ 136,599</u>
Total current liabilities	<u>\$ 393,648</u>	<u>\$ 132,133</u>	<u>\$ 525,781</u>
NONCURRENT LIABILITIES:			
Revenue bonds payable	<u>\$ 237,000</u>	<u>\$ 433,876</u>	<u>\$ 670,876</u>
Total liabilities	<u>\$ 630,648</u>	<u>\$ 566,009</u>	<u>\$ 1,196,657</u>
NET ASSETS:			
Invested in capital assets, net of related debt	\$ 3,169,599	\$ 2,120,680	\$ 5,290,279
Restricted for -			
Debt service	34,701	210,686	245,387
Unrestricted	1,235,610	21,718	1,257,328
Total net assets	<u>\$ 4,439,910</u>	<u>\$ 2,353,084</u>	<u>\$ 6,792,994</u>
Total liabilities and net assets	<u>\$ 5,070,558</u>	<u>\$ 2,919,093</u>	<u>\$ 7,989,651</u>

See Notes to Financial Statements.

TOWN OF ERATH, LOUISIANA

STATEMENT OF REVENUES, EXPENSES, AND
CHANGES IN FUND NET ASSETS
PROPRIETARY FUNDS
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS
For the Year Ended June 30, 2006

	Utility	Sewerage Utility	Total
Operating revenues:			
Charges for services	\$ 2,063,801	\$ 127,661	\$ 2,191,462
Other	26,939	-	26,939
Total operating revenues	<u>\$ 2,090,740</u>	<u>\$ 127,661</u>	<u>\$ 2,218,401</u>
Operating expenses:			
Salaries	\$ 183,787	\$ 51,512	\$ 235,299
Payroll taxes	14,060	3,940	18,000
Purchase of electric power	1,080,317	-	1,080,317
Materials and supplies	108,356	15,070	123,426
Maintenance and repairs	23,692	9,644	33,336
Telephone and utilities	40,327	34,053	74,380
Insurance	18,829	125	18,954
Depreciation	127,557	88,562	216,119
Professional services	19,576	21,033	40,609
Contractual services	55,563	-	55,563
Bad debts	35,826	2,608	38,434
Other	25,822	6,395	32,217
Total operating expenses	<u>\$ 1,733,712</u>	<u>\$ 232,942</u>	<u>\$ 1,966,654</u>
Operating income (loss)	<u>\$ 357,028</u>	<u>\$ (105,281)</u>	<u>\$ 251,747</u>
Nonoperating revenues (expenses):			
Interest revenue	\$ 22,251	\$ 2,771	\$ 25,022
Interest expense	(13,529)	(22,146)	(35,675)
Loss on disposal of assets	(5,407)	(4,635)	(10,042)
Grant revenue	42,188	17,928	60,116
Other revenue	-	9,647	9,647
Total nonoperating revenues (expenses)	<u>\$ 45,503</u>	<u>\$ 3,565</u>	<u>\$ 49,068</u>
Income (loss) before contributions and transfers	<u>\$ 402,531</u>	<u>\$ (101,716)</u>	<u>\$ 300,815</u>
Transfers in	-	111,250	111,250
Transfers out	<u>(485,000)</u>	<u>-</u>	<u>(485,000)</u>
Change in net assets	<u>\$ (82,469)</u>	<u>\$ 9,534</u>	<u>\$ (72,935)</u>
Net assets, beginning	<u>4,522,379</u>	<u>2,343,550</u>	<u>6,865,929</u>
Net assets, ending	<u>\$ 4,439,910</u>	<u>\$ 2,353,084</u>	<u>\$ 6,792,994</u>
See Notes to Financial Statements.			

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TOWN OF ERATH, LOUISIANA

STATEMENT OF CASH FLOWS
 PROPRIETARY FUNDS
 BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS
 For the Year Ended June 30, 2006

	Utility	Sewerage Utility	Total
CASH FLOWS FROM OPERATING ACTIVITIES			
Receipts from customers	\$ 2,120,037	\$ 123,063	\$ 2,243,100
Payments to suppliers for goods and services	(1,453,549)	(89,241)	(1,542,790)
Payments to employees and for employee related costs	(178,696)	(48,302)	(226,998)
Other receipts	2,051	9,647	11,698
Net cash provided by (used in) operating activities	\$ 489,843	\$ (4,833)	\$ 485,010
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES			
Transfers from other funds	\$ -	\$ 111,250	\$ 111,250
Transfers to other funds	(485,000)	-	(485,000)
Increase in customer deposits, net	307	-	307
Net cash provided by (used in) noncapital financing activities	\$ (484,693)	\$ 111,250	\$ (373,443)
CASH FLOWS FROM CAPITAL AND RELATED FINANCIAL ACTIVITIES			
Principal payments	\$ (16,000)	\$ (45,531)	\$ (61,531)
Interest paid	(13,956)	(24,145)	(38,101)
Purchase and construction of fixed assets	(149,467)	(19,308)	(168,775)
Net cash used in capital and related financing activities	\$ (179,423)	\$ (88,984)	\$ (268,407)
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest earnings	\$ 22,251	\$ 2,771	\$ 25,022
Net increase (decrease) in cash	\$ (152,022)	\$ 20,204	\$ (131,818)
Cash, beginning of year	529,743	168,882	698,625
Cash, end of year	\$ 377,721	\$ 189,086	\$ 566,807

(continued)

TOWN OF ERATH, LOUISIANA

STATEMENT OF CASH FLOWS
PROPRIETARY FUNDS
BUSINESS-TYPE ACTIVITIES - ENTERPRISE FUNDS (CONTINUED)
For the Year Ended June 30, 2006

	Utility	Sewerage Utility	Total
RECONCILIATION OF OPERATING INCOME (LOSS) TO NET CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES			
Operating income (loss)	\$ 357,028	\$ (105,281)	\$ 251,747
Adjustments to reconcile operating income (loss) to net cash provided by (used in) operating activities:			
Depreciation	127,557	88,562	216,119
Provision for bad debt	18,621	861	19,482
Other	2,051	9,647	11,698
Change in assets and liabilities -			
(Increase) decrease in receivables	46,183	(265)	45,918
Increase in due from other funds	(55,977)	(2,587)	(58,564)
Decrease in accounts payable and accrued expenses	(46,188)	(3,045)	(49,233)
Increase in due to other funds	40,568	7,275	47,843
Net cash provided by (used in) operating activities	<u>\$ 489,843</u>	<u>\$ (4,833)</u>	<u>\$ 485,010</u>
CASH REPORTED ON STATEMENT OF NET ASSETS AS:			
Current	\$ 327,917	\$ 22,130	\$ 350,047
Restricted	<u>49,804</u>	<u>166,956</u>	<u>216,760</u>
	<u>\$ 377,721</u>	<u>\$ 189,086</u>	<u>\$ 566,807</u>

See Notes to Financial Statements.

TOWN OF ERATH, LOUISIANA
STATEMENT OF FIDUCIARY NET ASSETS
FIDUCIARY FUND
June 30, 2006

ASSETS	<u>Agency Fund</u>
Cash	\$ 30,189
Due from other funds	<u>4,265</u>
Total assets	<u>\$ 34,454</u>
 LIABILITIES	
Due to external parties	<u>\$ 34,454</u>

See Notes to Financial Statements.

TOWN OF ERATH, LOUISIANA
NOTES TO FINANCIAL STATEMENTS

Note 1. Summary of Significant Accounting Policies

The financial statements of the Town of Erath, Louisiana (the "Town") are prepared in accordance with generally accepted accounting principles (GAAP). The Governmental Accounting Standards Board (GASB) is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board (FASB) issued through November 30, 1989 (when applicable) that do not conflict with or contradict GASB pronouncements for both the business-type activities and proprietary fund financial statements. Although the Town has the option to apply FASB pronouncements issued after that date, they have chosen not to do so. The more significant of the Town's accounting policies are described below.

Reporting entity:

The financial reporting entity consists of (a) the primary government, (b) organizations for which the primary government is financially accountable, and (c) other organizations for which the primary government is not accountable, but for which the nature and significance of their relationship with the primary government are such that exclusion would cause the reporting entity's financial statements to be misleading or incomplete.

Primary government -

Town of Erath - The Town was incorporated under the provisions of the Lawrason Act and operates under a Mayor-Board of Aldermen form of government. The Mayor and Board of Aldermen are elected officials. The Town's operations include police and fire protection, streets and drainage, parks and recreation, and general and administrative services. The Town also operates two enterprise activities, a utility fund and sewerage utility fund, which provides electric, water and sewer services.

Component units -

Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity" establishes criteria for determining which entities should be considered a component unit and, as such, part of the reporting entity for financial reporting purposes. The basic criteria are as follows:

1. Legal status of the potential component unit including the right to incur its own debt, levy its own taxes and charges, expropriate property in its own name, sue and be sued, and the right to buy, sell and lease property in its own name.

NOTES TO FINANCIAL STATEMENTS

2. Whether the primary government's governing authority (Board of Aldermen or Mayor) appoints a majority of board members of the potential component unit.
3. Fiscal interdependency between the primary government and the potential component unit.
4. Imposition of will by the primary government on the potential component unit.
5. Financial benefit/burden relationship between the primary government and the potential component unit.

Based on the above criteria, there are no organizations or agencies which should be included in these basic financial statements as component units.

Basis of presentation:

The Town's basic financial statements consist of the government-wide statements on all of the non-fiduciary activities of the government and the fund financial statements (individual major fund and combined nonmajor funds). The statements are prepared in accordance with accounting principles generally accepted in the United States of America as applied to governmental units.

Government-wide financial statements -

The government-wide financial statements include the statement of net assets and the statement of activities for all non-fiduciary activities of the government. As a general rule, the effect of interfund activity has been removed from these statements. These statements distinguish between the governmental and business-type activities of the Town. Governmental activities generally are financed through taxes, intergovernmental revenues and other nonexchange transactions. Business type activities are financed in whole or in part by fees charged to external parties.

In the government-wide statement of net assets, both the governmental and business-type activities columns (a) are presented on a consolidated basis by column, (b) and are reported on a full accrual, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. The Town's net assets are reported in three parts - invested in capital assets, net of related debt; restricted net assets; and unrestricted net assets. The Town first utilizes restricted resources to finance qualifying activities.

NOTES TO FINANCIAL STATEMENTS

The government-wide statement of activities reports both the gross and net cost of each of the Town's functions and business-type activities. The functions are also supported by general government revenues (property, sales and use taxes, certain intergovernmental revenues, etc.). The statement of activities reduces gross expenses (including depreciation) by related program revenues, operating and capital grants. Program revenues must be directly associated with the function or a business-type activity. Operating grants include operating specific and discretionary (either operating or capital) grants while the capital grants column reflects capital-specific grants. The net cost (by function or business-type activity) is normally covered by general revenue (property, sales and use taxes, intergovernmental revenues, investment income, etc.).

The Town does not allocate indirect costs.

The government-wide focus is more on the sustainability of the Town as an entity and the change in the Town's net assets resulting from the current year's activities.

Fund financial statements -

The fund financial statements provide information about the Town's funds, including its fiduciary funds. Separate statements for each fund category - governmental, proprietary, and fiduciary - are presented. The emphasis of fund financial statements is on major governmental and enterprise funds, each displayed in a separate column. All remaining governmental and enterprise funds are aggregated and reported as nonmajor funds.

Proprietary fund operating revenues, such as charges for services, result from exchange transactions associated with the principal activity of the fund. Exchange transactions are those in which each party receives and gives up essentially equal values. Nonoperating revenues, such as investment income, result from nonexchange transactions or ancillary activities.

The Town reports the following major governmental funds:

General Fund - This is the Town's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

Sales Tax Fund - This fund accounts for the receipts and disbursements of proceeds from the Town's 1.00% sales and use tax levies. These taxes are dedicated as described in Note 9.

NOTES TO FINANCIAL STATEMENTS

The Town reports the following major enterprise funds:

Utility Fund - This fund accounts for the provision of electric and water services to the residents of the Town. All activities necessary to provide such services are accounted for in this fund, including, but not limited to, administration, operations, maintenance, billing and collection.

Sewerage Utility Fund - This fund accounts for all activities associated with the provision of sewerage services, including, but not limited to, administration, operations, maintenance, billing and collection.

In addition, the Town reports the following:

Agency Fund - This fund accounts for assets held by the Town for bonds related to the Mayor's Court.

The emphasis in fund financial statements is on the major funds in either the governmental or business-type activities categories. Nonmajor funds are summarized into a single column. GASB No. 34 sets forth minimum criteria (percentage of assets, liabilities, revenues or expenditures/expenses of either fund category or the governmental and enterprise combined) for the determination of major funds. The Town has one nonmajor fund which is reported in a column labeled "Other Governmental Fund" in the fund financial statements.

The Town has one fiduciary fund, an Agency Fund, which is presented in the fiduciary fund financial statements. Since by definition these assets are being held for the benefit of third parties and cannot be used to address activities or obligations of the Town, these funds are not incorporated into the government-wide statements.

Basis of accounting:

Government-wide, proprietary and fiduciary fund financial statements -

The government-wide, proprietary and fiduciary fund financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Nonexchange transactions, in which the Town gives (or receives) value without directly receiving (or giving) equal value in exchange, include property taxes, grants, entitlements and donations. On an accrual

NOTES TO FINANCIAL STATEMENTS

basis, property taxes are recognized in the year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied.

Governmental fund financial statements -

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Under this method, revenues are recognized when susceptible to accrual (i.e., when they become both measurable and available). "Measurable" means the amount of the transaction can be determined and "available" means collectible within the current period or soon enough thereafter to be used to pay liabilities of the current period. Sales taxes are considered "measurable" when in the hands of the Sales Tax Collector and are recognized as revenue at that time. Ad valorem taxes are recognized as revenue in the year for which budgeted, that is, in the year in which such taxes are billed and collected. All other receivables collected within 60 days after year end are considered available and recognized as revenue of the current year. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, claims and judgments and compensated absences, which are recognized to the extent they have matured. General capital asset acquisitions are reported as expenditures in governmental funds. Proceeds of general long-term debt and acquisitions under capital leases are reported as other financing sources. Purchases of various operating supplies are regarded as expenditures at the time purchased.

Cash and cash equivalents:

Cash includes amounts in demand deposits, with paying agent, and on hand. For purposes of the statement of cash flows for proprietary fund types funds, all highly liquid investments (including restricted assets) with an original maturity of three months or less are considered to be cash equivalents. The Town has no cash equivalents at June 30, 2006.

Investments:

State statutes authorize the Town to invest in United States bonds, treasury notes, or certificates and time deposits of state banks organized under Louisiana law and national banks having principal offices in Louisiana.

The Town's investments at June 30, 2006 consisted of time certificates of deposit purchased from local financial institutions. These certificates are not subject to GASB Statement No. 31 requirements; thus, they are stated at cost.

NOTES TO FINANCIAL STATEMENTS

Custodial credit risk:

The Town is exposed to custodial credit risk as it relates to their deposits with financial institutions. The Town's policy to ensure there is no exposure to this risk is to require each financial institution to pledge their own securities to cover any amount in excess of Federal Depository Insurance Coverage. These securities must be held in the Town's name. Accordingly, the Town had no custodial credit risk related to its deposits at June 30, 2006.

Interfund receivables and payables:

Short-term cash borrowings between funds are considered temporary in nature. These amounts are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

Receivables:

Accounts receivable and unbilled service receivable for the Utility Fund and Sewerage Utility Fund are reported net of an allowance for doubtful accounts. The allowance amount at June 30, 2006 for the Utility Fund and the Sewerage Utility Fund was \$24,308 and \$1,345, respectively.

Restricted assets:

Certain resources of the Utility Fund and Sewerage Utility Fund are classified as restricted assets in the statement of net assets because their use is limited by bond indenture or because they represent customers' deposits being held by the Town.

Fixed assets:

The accounting treatment over property, plant, and equipment (fixed assets) depends on whether the assets are used in governmental fund operations or proprietary fund operations and whether they are reported in the government-wide or fund financial statements.

Government-wide statements -

In the government-wide financial statements, fixed assets are accounted for as capital assets. All capital assets are valued at historical cost, or estimated historical cost for assets where actual historical cost is not available. Donated assets are recorded as capital assets at their estimated fair market value at the date of

NOTES TO FINANCIAL STATEMENTS

donation. Prior to July 1, 2003, governmental funds' infrastructure assets were not capitalized. These assets have been valued at estimated historical cost and have been included in the accompanying financial statements.

Depreciation of all exhaustible fixed assets is recorded as an allocated expense in the statement of activities, with accumulated depreciation reflected in the statement of net assets. Depreciation is provided over the assets' estimated useful lives using the straight-line method of depreciation. The range of estimated useful lives by type of asset is as follows:

	<u>Years</u>
Land improvements	20 - 40
Buildings and improvements	7 - 40
Infrastructure	20 - 40
Equipment	4 - 20
Aeration basin	50
Electric warehouse	20
Electric distribution system	20 - 50
Water production and storage facilities	8 - 25
Water distribution system	50
Sewerage treatment plant and collection system	50
Water treatment plan	40

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Fund financial statements -

In the fund financial statements, fixed assets used in governmental fund operations are accounted for as capital outlay expenditures of the governmental fund upon acquisition. Fixed assets used in proprietary fund operations are accounted for the same as in the government-wide statements.

Interest on debt issued to finance construction of the sewerage system and to finance sewerage system improvements has been capitalized as a part of the cost of such projects. Fixed assets of the Sewerage Utility Fund include capitalized interest totaling \$47,963.

NOTES TO FINANCIAL STATEMENTS

Compensated absences:

Each employee earns a set amount of annual leave depending on years of service. Any amount not used in the year it is earned is lost; however, it may be converted to sick leave up to a 36 day maximum.

Upon termination, no payment is made for accrued and unused sick leave. However, any accumulated current year annual leave is paid to the employee. Any liability for this accumulated leave is determined immaterial to the financial statements at June 30, 2006 and, therefore, not recorded.

Long-term debt:

The accounting treatment of long-term debt depends on whether the debt relates to governmental or proprietary fund obligations and whether it is reported in the government-wide or fund financial statements.

All long-term debt to be repaid from governmental and business-type resources is reported as liabilities in the government-wide statements. Long-term debt consists of bonds payable.

Long-term debt for governmental funds is not reported as liabilities in the fund financial statements. The debt proceeds are reported as other financing sources and payment of principal and interest reported as expenditures. Long-term debt in proprietary fund operations is accounted for the same in the fund financial statements as it is in the government wide statements.

Equity classifications:

Government-wide statements -

Equity is classified as net assets and displayed in three components:

1. Invested in capital assets, net of related debt - Consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any borrowings that are attributable to the acquisition, construction, or improvement of those assets.
2. Restricted net assets - Consists of net assets with constraints placed on the use either by (1) external groups such as creditors, grantors, contributors, or laws or regulations of other governments, or (2) law through constitutional provisions or enabling legislation.
3. Unrestricted net assets - All other net assets that do not meet the definition of "restricted" or "invested in capital assets, net of related debt."

NOTES TO FINANCIAL STATEMENTS

Fund financial statements -

Governmental fund equity is classified as fund balance. Fund balance is further classified as reserved and unreserved, with unreserved further split between designated and undesignated. Proprietary fund equity is classified the same as in the government-wide statements.

Interfund transfers:

Permanent reallocation of resources between funds of the primary government are classified as interfund transfers. For the purposes of the statement of activities, all interfund transfers between individual governmental funds and individual proprietary funds have been eliminated.

Deferred revenue:

In governmental funds, deferred revenue represents grants and similar items received for which the Town has not met all eligibility requirements imposed by the provider.

Use of estimates:

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect certain reported amounts and disclosures. Accordingly, actual results could differ from those estimates.

Impairments:

The Town evaluates long-term assets to be held and used for impairment when events or changes in economic circumstances indicate the carrying value of such assets may be unrecoverable. When such a situation exists, the Town uses an estimate of the future undiscounted net cash flows to measure whether the assets are recoverable and measured for impairment by reference to fair value. Fair value is generally estimated using the Town's expectations of discounted net cash flows. Long-term assets to be disposed of are carried at the lower of cost or fair value less the costs of disposal.

NOTES TO FINANCIAL STATEMENTS

Note 2. Interfund Balances

Interfund balances at June 30, 2006 consist of the following:

	Due From:					Total
	General	Sales Tax	Utility	Sewerage Utility	Other Governmental Fund	
Due To:						
General	\$ -	\$26,828	\$ 47,292	\$ 7,141	\$ 703	\$ 81,964
Sales Tax	-	-	148,124	70,443	-	218,567
Utility	55,977	-	-	-	-	55,977
Sewerage Utility	-	-	4,357	-	-	4,357
Agency Fund	4,265	-	-	-	-	4,265
Total	<u>\$60,242</u>	<u>\$26,828</u>	<u>\$199,773</u>	<u>\$ 77,584</u>	<u>\$ 703</u>	<u>\$365,130</u>

These balances resulted from the time lag between the dates that (1) interfund goods and services are provided or reimbursable expenditures occur, (2) transactions are recorded in the accounting system, and (3) payments between funds are made.

Note 3. Interfund Transfers

Interfund transfers for the year ended June 30, 2006 consist of the following:

	Transfers From:			Total
	General	Sales Tax	Utility	
Transfers To:				
General	\$ -	\$ -	\$420,000	\$420,000
Sewerage Utility	-	46,250	65,000	111,250
Other Governmental Fund	52,876	-	-	52,876
Total	<u>\$52,876</u>	<u>\$46,250</u>	<u>\$485,000</u>	<u>\$584,126</u>

Transfers are used to (1) move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them, (2) move receipts restricted to debt service from the fund collecting the receipts to the fund required to pay the debt, and (3) use unrestricted revenues collected in one fund to finance various programs accounted for in other funds in accordance with budgetary authorizations.

NOTES TO FINANCIAL STATEMENTS

Note 4. Capital Assets and Depreciation

Capital assets activity for the year ended June 30, 2006 was as follows:

	Beginning Balance	Increases	Decreases	Ending Balance
Governmental activities:				
Capital assets not being depreciated -				
Land	\$ 253,388	\$ -0-	\$ -0-	\$ 253,388
Capital assets being depreciated -				
Land improvements	\$ 263,619	\$ -	\$ (4,395)	\$ 259,224
Buildings and improvements	291,351	-	(3,843)	287,508
Infrastructure	655,881	-	-	655,881
Equipment	749,841	84,132	(91,441)	742,532
Total capital assets being depreciated	\$ 1,960,692	\$ 84,132	\$ (99,679)	\$ 1,945,145
Less accumulated depreciation for -				
Land improvements	\$ (148,716)	\$ (8,890)	\$ 1,262	\$ (156,344)
Buildings and improvements	(237,568)	(7,701)	3,843	(241,426)
Infrastructure	(352,887)	(16,425)	-	(369,312)
Equipment	(527,845)	(45,127)	87,493	(485,479)
Total accumulated depreciation	\$ (1,267,016)	\$ (78,143)	\$ 92,598	\$ (1,252,561)
Total capital assets being depreciated, net	\$ 693,676	\$ 5,989	\$ (7,081)	\$ 692,584
Governmental activities capital assets, net	\$ 947,064	\$ 5,989	\$ (7,081)	\$ 945,972
Business-type activities:				
Capital assets not being depreciated -				
Land	\$ 76,663	\$ -	\$ -	\$ 76,663
Construction in progress	27,680	-	-	27,680
Total capital assets not being depreciated	\$ 104,343	\$ -0-	\$ -0-	\$ 104,343

(continued)

NOTES TO FINANCIAL STATEMENTS

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets being depreciated -				
Aeration basin	\$ 239,568	\$ -	\$ -	\$ 239,568
Electric warehouse	9,359	-	(920)	8,439
Electric distribution system	378,655	24,675	(1,858)	401,472
Water production and storage facilities	262,580	-	-	262,580
Water distribution system	1,592,802	800	-	1,593,602
Sewerage treatment plant	556,769	-	-	556,769
Sewerage collection system	3,119,187	-	-	3,119,187
Autos and trucks	95,363	119,040	(2,800)	211,603
Other equipment	220,532	24,259	(31,241)	213,550
Water treatment plant	<u>1,994,629</u>	<u>-</u>	<u>-</u>	<u>1,994,629</u>
Total capital assets being depreciated	<u>\$ 8,469,444</u>	<u>\$ 168,774</u>	<u>\$ (36,819)</u>	<u>\$ 8,601,399</u>
Less accumulated depreciation for -				
Aeration basin	\$ (99,021)	\$ (4,791)	\$ -	\$ (103,812)
Electric warehouse	(4,527)	(316)	309	(4,534)
Electric distribution system	(185,133)	(6,805)	880	(191,058)
Water production and storage facilities	(262,580)	-	-	(262,580)
Water distribution system	(421,601)	(31,860)	-	(453,461)
Sewerage treatment plant	(244,298)	(12,450)	-	(256,748)
Sewerage collection system	(961,128)	(62,384)	-	(1,023,512)
Autos and trucks	(27,482)	(33,344)	1,493	(59,333)
Other equipment	(162,023)	(14,304)	24,094	(152,233)
Water treatment plant	<u>(124,665)</u>	<u>(49,865)</u>	<u>-</u>	<u>(174,530)</u>
Total accumulated depreciation	<u>\$ (2,492,458)</u>	<u>\$ (216,119)</u>	<u>\$ 26,776</u>	<u>\$ (2,681,801)</u>
Total capital assets being depreciated, net	<u>\$ 5,976,986</u>	<u>\$ (47,345)</u>	<u>\$ (10,043)</u>	<u>\$ 5,919,598</u>
Business-type activities capital assets	<u>\$ 6,081,329</u>	<u>\$ (47,345)</u>	<u>\$ (10,043)</u>	<u>\$ 6,023,941</u>

NOTES TO FINANCIAL STATEMENTS

Depreciation was charged as follows:

Governmental activities:		
General government		\$ 12,139
Public safety		37,322
Public works		24,184
Culture and recreation		<u>4,498</u>
Total governmental activities		
depreciation expense		<u>\$ 78,143</u>
Business-type activities:		
Electric and water		\$ 127,557
Sewer		<u>88,562</u>
Total business-type activities		
depreciation expense		<u>\$ 216,119</u>

Note 5. Long-term Debt

Revenue Bonds. The Town has issued bonds which are payable from a specific revenue source, income derived from the proprietary funds and a 1% sales and use tax. Proceeds were used to construct the sewerage system, to make extensions to the system, and to construct a new water treatment plant. These bonds, expected to be paid from the Utility and Sewerage Utility proprietary funds, are reported in those funds. Revenue bonds outstanding at June 30, 2006 are as follows:

	<u>Issue Date</u>	<u>Maturity Date</u>	<u>Interest Rate</u>	<u>Balance Outstanding</u>	<u>Due Within One Year</u>
Business-type activities:					
Sewer Revenue					
Bonds	07/09/82	07/09/07	5.00	\$ 85,000	\$ 40,000
	02/09/98	02/09/38	4.50	<u>394,661</u>	<u>5,785</u>
				\$ 479,661	\$ 45,785
Water Revenue					
Bonds	08/06/01	07/01/16	5.33	<u>254,000</u>	<u>17,000</u>
Total business-type activities debt				<u>\$ 733,661</u>	<u>\$ 62,785</u>

NOTES TO FINANCIAL STATEMENTS

Debt service requirements to maturity of all bonds outstanding at June 30, 2006 are as follows:

<u>Year Ending June 30</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2007	\$ 62,785	\$ 34,977	\$ 97,762
2008	69,051	31,778	100,829
2009	25,329	28,264	53,593
2010	26,619	26,934	53,553
2011	28,923	25,511	54,434
2012-2016	167,691	103,291	270,982
2017-2021	79,685	68,246	147,931
2022-2026	62,196	54,936	117,132
2027-2031	77,857	39,275	117,132
2032-2036	97,461	19,671	117,132
2037-2039	36,064	1,381	37,445
	<u>\$ 733,661</u>	<u>\$ 434,264</u>	<u>\$1,167,925</u>

Changes in Long-Term Debt. During the year ended June 30, 2006, the following changes occurred in long-term debt:

	<u>Balance, July 1, 2005</u>	<u>Additions</u>	<u>Reductions</u>	<u>Balance, June 30, 2006</u>
Business-type activities:				
Revenue bonds	<u>\$ 795,192</u>	<u>\$ -0-</u>	<u>\$ (61,531)</u>	<u>\$ 733,661</u>

Total interest costs incurred and charged to expense during the year ended June 30, 2006 was \$35,675.

Note 6. Restricted Assets - Enterprise Funds

Restricted assets of the enterprise funds were applicable to the following at June 30, 2006:

	<u>Utility Fund</u>	<u>Sewerage Utility Fund</u>	<u>Total</u>
Cash with paying agent	\$ 23,769	\$ 44,250	\$ 68,019
Bond sinking fund	-	6,201	6,201
Bond reserve fund	-	58,797	58,797
Depreciation and contingency fund	17,700	105,688	123,388
Customers' deposits	<u>62,796</u>	<u>-</u>	<u>62,796</u>
	<u>\$104,265</u>	<u>\$214,936</u>	<u>\$319,201</u>

NOTES TO FINANCIAL STATEMENTS

Note 7. Flow of Funds; Restrictions on Use

Sewer Revenues

Under the terms of the bond indenture on outstanding Sewer Revenue Bonds dated July 9, 1982, all income and revenues of the sewer system, supplemented by pledge of the proceeds of the Town's 1% sales and use tax, are pledged and dedicated to the retirement of said bonds, and are to be set aside into the following special funds, after payment of expenses for maintaining and operating the system:

Sewer Revenue Bond and Interest Fund: Transfer monthly a sum equal to 1/12 of the principal and interest due on the next payment date.

Sewer Reserve Fund: Transfer monthly a sum equal to 5% of the amount paid into the Bond and Interest Fund until such time as the amount in this fund equals the highest combined principal and interest requirement in any succeeding 12 months (\$47,250).

Sewer Depreciation and Contingency Fund: Transfer \$245 monthly.

Under the terms of the bond indenture on outstanding Sewer Revenue Bonds dated February 9, 1998, all income and revenues of the sewer system, after payment of expenses for maintaining and operating the system, and after making such payments as required by the outstanding Sewer Revenue Bonds dated July 9, 1982 are pledged and dedicated to the retirement of said bonds and are to be set aside into the following special funds:

Sewer Revenue Bond and Interest Sinking Fund: Transfer monthly a sum equal to the principal and interest due on the next payment date.

Sewer Revenue Bond Reserve Fund: Transfer monthly a sum equal to 5% of the amount paid into the Bond and Interest Sinking Fund until such time as the amount in this fund equals \$23,426.

Sewer Depreciation and Contingency Fund: Transfer \$175 monthly.

All required transfers were made for the year ended June 30, 2006.

NOTES TO FINANCIAL STATEMENTS

Water Revenues

Under the terms of the bond indenture on outstanding Water Revenue Bonds dated August 6, 2001, all income and revenues of the water system are pledged and dedicated to the retirement of said bonds, and are to be set aside into the following special funds, after payment of expenses for maintaining and operating the system:

Water Revenue Bond and Interest Sinking Fund: Transfer monthly a sum equal to 1/12 of the principal and 1/6 of the interest due on the next payment date.

Water Depreciation and Contingency Fund: Transfer \$300 monthly until such time as the amount in this fund equals \$18,000.

All required transfers were made for the year ended June 30, 2006.

Note 8. Ad Valorem Taxes

Government-wide financial statements -

Property taxes are recognized in the year for which they are levied, net of uncollectible amounts, as applicable.

Fund financial statements -

Property taxes attach as an enforceable lien on property as of January 1. Taxes are levied at the beginning of the fiscal year and are billed on December 1. Although the tax roll is prepared by the Vermilion Parish Tax Assessor, the Town bills and collects its own taxes.

For the year ended June 30, 2006, ad valorem taxes of 3.75 mills were levied on assessed valuations totaling \$5,346,400, and were dedicated to general corporate purposes. Total taxes levied were \$20,050. Taxes receivable at June 30, 2006 totaled \$25, all of which is considered collectible. No receivable has been recorded for this immaterial amount.

Note 9. Dedication of Proceeds and Flow of Funds - 1% Sales and Use Tax

The Town levies a 1% sales and use tax, which taxes are dedicated to: constructing, acquiring, extending, improving and/or maintaining drainage facilities, streets, street lighting facilities, sidewalks, sewers and sewerage disposal works, public buildings and/or fire department stations and equipment; purchasing and acquiring equipment and furnishings for the aforesaid public works, buildings, improvements and facilities; and for paying principal and interest on any bonded or funded indebtedness of the

NOTES TO FINANCIAL STATEMENTS

Town. Sales taxes recognized in the governmental fund financial statements under the modified accrual basis of accounting were \$249,071 while the amount recognized in the government-wide financial statements under the accrual basis of accounting was \$262,766.

Note 10. Special Parish Sales Tax

A portion of a special $\frac{1}{4}$ cent Vermilion Parish sales tax has been dedicated toward constructing, acquiring, improving and/or maintaining fire department facilities and equipment, said funds to be collected by the Parish and to be administered by the Parish and by various municipalities having fire departments. The Vermilion Parish Police Jury has appropriated a portion of the recurring annual revenues from the sales tax to the Town for maintenance and operating expenses of the Erath Volunteer Fire Department.

Note 11. Compensation of Elected Officials

A detail of compensation paid to individual elected officials for the year ended June 30, 2006 follows:

George Dupuis, Mayor	\$ 6,359
Aldermen:	
Robert Domingues	2,602
John LeBlanc	2,537
Carl Broussard	2,537
Joseph William Cormier	2,537
Donald Menard	2,537
Steven Peltier, Chief of Police	<u>28,852</u>
	<u>\$ 47,961</u>

Note 12. Contingent Liability

The Town is a defendant in one lawsuit at year end which is in the discovery stages. Accordingly, no liability is recorded at year end.

In the normal course of operations, the Town receives grant funds from various Federal and State agencies. The grant programs are subject to audits by agents of the granting authority, the purpose of which is to ensure compliance with conditions precedent to the granting of funds. Any liability for reimbursement that may arise as a result of these audits is not believed to be material.

NOTES TO FINANCIAL STATEMENTS

Note 13. Due From Other Governmental Agencies

Amounts due from other governmental agencies consist of the following at June 30, 2006:

Fund financial statements:

Governmental Funds -

Vermilion Parish School Board:

Sales and use taxes collected but not remitted	\$ 20,304
--	-----------

State of Louisiana:

Federal pass-through grant funds	82,959
Other	<u>2,394</u>

\$ 105,657

Proprietary Funds -

State of Louisiana:

Federal pass-through grant funds	<u>\$ 58,065</u>
----------------------------------	------------------

Government-wide financial statements:

Total amount reported in -

Governmental Funds from above	\$ 105,657
Proprietary Funds from above	58,065

Additional sales and use taxes

due from Vermilion Parish School Board	<u>32,014</u>
--	---------------

\$ 195,736

Note 14. Risk Management

The Town is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The Town purchases commercial insurance to cover any claims related to these risks.

REQUIRED SUPPLEMENTARY INFORMATION

TOWN OF ERATH, LOUISIANA
BUDGETARY COMPARISON SCHEDULE
GENERAL FUND
For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes	\$ 41,000	\$ 41,000	\$ 42,142	\$ 1,142
Licenses and permits	65,400	65,400	74,582	9,182
Intergovernmental	8,822	8,822	98,298	89,476
Charges for services	40,500	40,500	47,733	7,233
Fines and forfeits	55,000	55,000	95,452	40,452
Miscellaneous	10,800	10,800	14,962	4,162
Total revenues	<u>\$ 221,522</u>	<u>\$ 221,522</u>	<u>\$ 373,169</u>	<u>\$ 151,647</u>
Expenditures:				
Current -				
General government	\$ 285,182	\$ 285,182	\$ 294,655	\$ (9,473)
Public safety	268,402	269,902	306,921	(37,019)
Health and welfare	1,892	1,892	4,822	(2,930)
Culture and recreation	28,868	28,868	31,754	(2,886)
Capital outlay	19,750	21,250	76,457	(55,207)
Total expenditures	<u>\$ 604,094</u>	<u>\$ 607,094</u>	<u>\$ 714,609</u>	<u>\$ (107,515)</u>
Excess (deficiency) of revenues over expenditures	<u>\$ (382,572)</u>	<u>\$ (385,572)</u>	<u>\$ (341,440)</u>	<u>\$ 44,132</u>
Other financing sources (uses):				
Transfers in	\$ 450,000	\$ 450,000	\$ 420,000	\$ (30,000)
Transfers out	(63,782)	(58,782)	(52,876)	5,906
Total other financing sources (uses)	<u>\$ 386,218</u>	<u>\$ 391,218</u>	<u>\$ 367,124</u>	<u>\$ (24,094)</u>
Net change in fund balance	\$ 3,646	\$ 5,646	\$ 25,684	\$ 20,038
Fund balance, beginning	<u>85,209</u>	<u>85,209</u>	<u>108,148</u>	<u>22,939</u>
Fund balance, ending	<u>\$ 88,855</u>	<u>\$ 90,855</u>	<u>\$ 133,832</u>	<u>\$ 42,977</u>

See Notes to Budgetary Comparison Schedules.

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TOWN OF ERATH, LOUISIANA

BUDGETARY COMPARISON SCHEDULE
SALES TAX FUND

For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Revenues:				
Taxes -				
Sales tax collected	\$ 200,000	\$ 200,000	\$ 249,071	\$ 49,071
Intergovernmental -				
Federal grant	-	-	3,582	3,582
Interest	-	-	180	180
Miscellaneous -				
Maintenance agreement	5,500	5,500	5,000	(500)
Total revenues	<u>\$ 205,500</u>	<u>\$ 205,500</u>	<u>\$ 257,833</u>	<u>\$ 52,333</u>
Expenditures:				
Current -				
General government (financial administration):				
Auditing, accounting and legal	\$ 550	\$ 550	\$ 1,788	\$ (1,238)
Office supplies	800	800	-	800
	<u>\$ 1,350</u>	<u>\$ 1,350</u>	<u>\$ 1,788</u>	<u>\$ (438)</u>
Public works (streets and drainage):				
Salaries and wages -				
Public works director	\$ 13,560	\$ 13,560	\$ 15,965	\$ (2,405)
Other	70,219	70,219	20,968	49,251
Payroll taxes	6,409	6,409	2,825	3,584
Insurance	3,500	3,500	2,961	539
Material and supplies	20,250	20,250	24,636	(4,386)
Utilities	2,000	2,000	54	1,946
Telephone	3,000	3,000	1,710	1,290
Repairs and maintenance	3,250	3,250	8,751	(5,501)
Truck and tractor expenses	2,000	2,000	-	2,000
Fuel and oil	6,500	6,500	7,650	(1,150)
Professional services	1,000	1,000	134	866
Uniforms	2,000	2,000	325	1,675
Miscellaneous	750	750	350	400
	<u>\$ 134,438</u>	<u>\$ 134,438</u>	<u>\$ 86,329</u>	<u>\$ 48,109</u>
Capital outlay	<u>\$ 11,800</u>	<u>\$ 11,800</u>	<u>\$ 4,361</u>	<u>\$ 7,439</u>
Total expenditures	<u>\$ 147,588</u>	<u>\$ 147,588</u>	<u>\$ 92,478</u>	<u>\$ 55,110</u>

(continued)

TOWN OF ERATH, LOUISIANA

BUDGETARY COMPARISON SCHEDULE (CONTINUED)

SALES TAX FUND

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Excess (deficiency) of revenue over expenditures	\$ 57,912	\$ 57,912	\$ 165,355	\$ 107,443
Other financing uses:				
Transfers out	<u>(44,900)</u>	<u>(44,900)</u>	<u>(46,250)</u>	<u>(1,350)</u>
Net change in fund balance	\$ 13,012	\$ 13,012	\$ 119,105	\$ 106,093
Fund balance, beginning	<u>177,189</u>	<u>177,189</u>	<u>209,290</u>	<u>32,101</u>
Fund balance, ending	<u>\$ 190,201</u>	<u>\$ 190,201</u>	<u>\$ 328,395</u>	<u>\$ 138,194</u>

See Notes to Budgetary Comparison Schedules.

TOWN OF ERATH, LOUISIANA

NOTES TO BUDGETARY COMPARISON SCHEDULES

Note 1. Budgets and Budgetary Accounting

The Town of Erath uses the following budget practices:

1. Prior to June 1, the Mayor submits to the Board of Aldermen a proposed operating and capital budget for the fiscal year commencing July 1. The budget includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Final adoption is required to be prior to the end of the fiscal year in progress.
4. Budgets for the general and special revenue funds are adopted on a basis consistent with generally accepted accounting principles (GAAP).
5. Any revisions must be approved by the Board of Aldermen.
6. All appropriations lapse at year end.

All budgeted amounts presented reflect the original budget and the final budget (which has been adjusted for legally authorized revisions during the year).

Note 2. Stewardship, Compliance and Accountability

Excess of Expenditures Over Appropriations. The following individual fund had actual expenditures in excess of budgeted expenditures for the year ended June 30, 2006:

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Excess</u>
General Fund	<u>\$604,094</u>	<u>\$607,094</u>	<u>\$714,609</u>	<u>\$(107,515)</u>

OTHER SUPPLEMENTARY INFORMATION

TOWN OF ERATH, LOUISIANA

BUDGETARY COMPARISON SCHEDULE - DETAIL OF REVENUES
GENERAL FUND

For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Taxes -				
General ad valorem	\$ 20,000	\$ 20,000	\$ 20,150	\$ 150
Gas franchise tax	15,000	15,000	15,090	90
Cable franchise tax	3,000	3,000	3,211	211
Slemco franchise	-	-	781	781
Housing Authority payment in lieu of taxes	3,000	3,000	2,910	(90)
	<u>\$ 41,000</u>	<u>\$ 41,000</u>	<u>\$ 42,142</u>	<u>\$ 1,142</u>
Licenses and permits -				
Occupational licenses	\$ 14,000	\$ 14,000	\$ 11,890	\$ (2,110)
Insurance licenses	50,000	50,000	60,965	10,965
Building permits	1,000	1,000	1,427	427
Liquor permits	400	400	300	(100)
	<u>\$ 65,400</u>	<u>\$ 65,400</u>	<u>\$ 74,582</u>	<u>\$ 9,182</u>
Intergovernmental -				
State grants	\$ -	\$ -	\$ 5,929	\$ 5,929
Federal grants	-	-	88,364	88,364
State shared revenue:				
Beer taxes	6,322	6,322	4,005	(2,317)
State revenue sharing	2,500	2,500	-	(2,500)
	<u>\$ 8,822</u>	<u>\$ 8,822</u>	<u>\$ 98,298</u>	<u>\$ 89,476</u>
Charges for services -				
Police accident reports	\$ 500	\$ 500	\$ 207	\$ (293)
Court costs	40,000	40,000	47,526	7,526
	<u>\$ 40,500</u>	<u>\$ 40,500</u>	<u>\$ 47,733</u>	<u>\$ 7,233</u>
Fines and forfeits	<u>\$ 55,000</u>	<u>\$ 55,000</u>	<u>\$ 95,452</u>	<u>\$ 40,452</u>
Miscellaneous -				
Rent income (Post Office)	\$ 10,800	\$ 10,800	\$ 10,800	\$ -
Other	-	-	4,162	4,162
	<u>\$ 10,800</u>	<u>\$ 10,800</u>	<u>\$ 14,962</u>	<u>\$ 4,162</u>
Total revenues	<u>\$ 221,522</u>	<u>\$ 221,522</u>	<u>\$ 373,169</u>	<u>\$ 151,647</u>

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TOWN OF ERATH, LOUISIANA

BUDGETARY COMPARISON SCHEDULE - DETAIL OF EXPENDITURES
GENERAL FUND

For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Current:				
General government -				
Mayor's salary	\$ 6,294	\$ 6,294	\$ 6,359	\$ (65)
Council salaries	12,426	12,426	12,750	(324)
Other salaries	48,444	48,444	54,422	(5,978)
Payroll taxes	3,858	3,858	7,098	(3,240)
Group insurance	108,000	108,000	96,687	11,313
Printing, stationery and supplies	7,000	7,000	7,844	(844)
Building maintenance and repairs	2,500	2,500	10,598	(8,098)
Materials and supplies	1,000	1,000	2,927	(1,927)
General insurance	25,000	25,000	5,393	19,607
Mayor's expenses	1,200	1,200	-	1,200
Dues and subscriptions	1,000	1,000	923	77
Telephone	4,100	4,100	10,199	(6,099)
Utilities	7,000	7,000	8,836	(1,836)
Publication of minutes	5,000	5,000	3,256	1,744
Tax roll preparation	1,100	1,100	1,190	(90)
Legal fees	5,000	5,000	5,242	(242)
Professional fees	7,200	7,200	11,253	(4,053)
Autopsy fees	200	200	100	100
General liability insurance	4,000	4,000	6,669	(2,669)
External appropriations	900	900	1,061	(161)
Workmen's compensation insurance	26,000	26,000	36,152	(10,152)
Postage	1,000	1,000	971	29
Conventions and schools	2,000	2,000	-	2,000
Uniforms	1,000	1,000	34	966
Miscellaneous	3,960	3,960	4,691	(731)
Total general government	\$ 285,182	\$ 285,182	\$ 294,655	\$ (9,473)
Public safety:				
Police department -				
Chief of Police's salary	\$ 28,203	\$ 28,203	\$ 28,852	\$ (649)
Other salaries	181,506	181,506	191,937	(10,431)
Payroll taxes	15,974	15,974	16,890	(916)
Uniforms	3,000	3,000	498	2,502
Auto expenses	14,000	14,000	15,199	(1,199)

(continued)

TOWN OF ERATH, LOUISIANA

BUDGETARY COMPARISON SCHEDULE - DETAIL OF EXPENDITURES (CONTINUED)
GENERAL FUND

For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Public safety (continued):				
Police department -				
Building maintenance and				
repairs	500	2,000	15,835	(13,835)
Auto repairs and maintenance	1,000	1,000	7,347	(6,347)
Materials and supplies	1,200	1,200	376	824
Utilities	4,369	4,369	5,270	(901)
Telephone	3,000	3,000	3,612	(612)
General insurance	10,000	10,000	14,983	(4,983)
Radio, radar and camera				
repairs	1,000	1,000	292	708
Office	1,000	1,000	2,135	(1,135)
Conventions and schools	2,000	2,000	1,456	544
Miscellaneous	1,650	1,650	2,239	(589)
Total public safety	<u>\$ 268,402</u>	<u>\$ 269,902</u>	<u>\$ 306,921</u>	<u>\$ (37,019)</u>
Health and welfare:				
Meals on wheels	\$ 1,892	\$ 1,892	\$ 1,892	\$ -
Shelter expense	-	-	2,930	(2,930)
Total health and welfare	<u>\$ 1,892</u>	<u>\$ 1,892</u>	<u>\$ 4,822</u>	<u>\$ (2,930)</u>
Culture and recreation:				
Salaries	\$ 18,224	\$ 18,224	\$ 18,163	\$ 61
Payroll taxes	1,394	1,394	1,389	5
Materials and supplies	800	800	3,130	(2,330)
Utilities	4,500	4,500	5,078	(578)
Contract services	1,000	1,000	2,622	(1,622)
Equipment repairs and				
maintenance	800	800	630	170
Building repairs and				
maintenance	800	800	-	800
Maintenance and upkeep	400	400	8	392
Equipment fuel and oil	400	400	659	(259)
Miscellaneous	550	550	75	475
Total culture and				
recreation	<u>\$ 28,868</u>	<u>\$ 28,868</u>	<u>\$ 31,754</u>	<u>\$ (2,886)</u>
Capital outlay	<u>\$ 19,750</u>	<u>\$ 21,250</u>	<u>\$ 76,457</u>	<u>\$ (55,207)</u>
Total expenditures	<u>\$ 604,094</u>	<u>\$ 607,094</u>	<u>\$ 714,609</u>	<u>\$ (107,515)</u>

TOWN OF ERATH, LOUISIANA
 BUDGETARY COMPARISON SCHEDULE
 NONMAJOR GOVERNMENTAL FUND
 SPECIAL PARISH TAX FUND
 For the Year Ended June 30, 2006

	<u>Original Budget</u>	<u>Final Budget</u>	<u>Actual</u>	<u>Variance With Final Budget Positive (Negative)</u>
Revenues:				
Intergovernmental -				
Federal grant	\$ -	\$ -	\$ 966	\$ 966
Appropriation from Vermilion				
Parish Police Jury:				
Special parish tax	<u>22,348</u>	<u>22,348</u>	<u>24,802</u>	<u>2,454</u>
Total revenues	<u>\$ 22,348</u>	<u>\$ 22,348</u>	<u>\$ 25,768</u>	<u>\$ 3,420</u>
Expenditures:				
Current -				
General government:				
Audit and accounting	\$ 850	\$ 850	\$ 790	\$ 60
Public safety (fire department):				
Salaries	27,145	27,145	27,794	(649)
Payroll taxes	2,077	2,077	1,849	228
Training	5,500	5,500	3,689	1,811
Firemen's suppers	1,200	1,200	900	300
Materials and supplies	1,700	1,700	2,888	(1,188)
Truck expense	7,000	7,000	7,184	(184)
Insurance	8,985	8,985	10,709	(1,724)
Telephone	2,500	2,500	2,857	(357)
Uniforms	250	250	-	250
Building and repair and maintenance	500	500	1,691	(1,191)
Equipment repair and maintenance	3,000	3,000	27	2,973
Gas	750	750	695	55
Utilities	1,200	1,200	971	229
Radio maintenance	1,500	1,500	1,327	173
External appropriation	11,723	11,723	11,259	464
Miscellaneous	1,850	1,850	700	1,150
Capital outlay	<u>3,400</u>	<u>3,400</u>	<u>3,314</u>	<u>86</u>
Total expenditures	<u>\$ 81,130</u>	<u>\$ 81,130</u>	<u>\$ 78,644</u>	<u>\$ 2,486</u>

(continued)

TOWN OF ERATH, LOUISIANA

BUDGETARY COMPARISON SCHEDULE (CONTINUED)

NONMAJOR GOVERNMENTAL FUND

SPECIAL PARISH TAX FUND

For the Year Ended June 30, 2006

	Original Budget	Final Budget	Actual	Variance With Final Budget Positive (Negative)
Deficiency of revenues over expenditures	\$ (58,782)	\$ (58,782)	\$ (52,876)	\$ 5,906
Other financing sources:				
Transfers in	<u>58,782</u>	<u>58,782</u>	<u>52,876</u>	<u>(5,906)</u>
Net change in fund balance	\$ -0-	\$ -0-	\$ -0-	\$ -0-
Fund balance, beginning	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Fund balance, ending	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>	<u>\$ -0-</u>

TOWN OF ERATH, LOUISIANA

STATEMENT OF OPERATING REVENUES AND OPERATING
EXPENSES BY DEPARTMENT
UTILITY FUND

For the Year Ended June 30, 2006

	<u>Total</u>	<u>Electric</u>	<u>Water</u>
Operating revenues:			
Charges for services	\$2,063,801	\$1,813,219	\$ 250,582
Penalties for delinquent payment	24,839	21,823	3,016
Miscellaneous	2,100	1,845	255
Total operating revenues	<u>\$2,090,740</u>	<u>\$1,836,887</u>	<u>\$ 253,853</u>
Operating expenses:			
Salaries	\$ 183,787	\$ 98,837	\$ 84,950
Payroll taxes	14,060	7,561	6,499
Purchase of electric power	1,080,317	1,080,317	-
Materials and supplies	108,356	73,815	34,541
Repairs and maintenance	21,405	11,119	10,286
Contracted repairs	2,287	1,064	1,223
Fuel	8,970	4,583	4,387
Insurance	18,829	15,264	3,565
Office supplies and postage	6,192	5,331	861
Telephone and utilities	40,327	4,395	35,932
Depreciation	127,557	33,537	94,020
Bad debts	35,826	29,919	5,907
Professional services	19,576	15,482	4,094
Contractual services	55,563	50,913	4,650
Damages and claims	2,301	2,301	-
Miscellaneous	8,359	1,094	7,265
Total operating expenses	<u>\$1,733,712</u>	<u>\$1,435,532</u>	<u>\$ 298,180</u>
Income (loss) from operations	<u>\$ 357,028</u>	<u>\$ 401,355</u>	<u>\$ (44,327)</u>

COMPLIANCE AND OTHER GRANT INFORMATION

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BROUSSARD, POCHÉ, LEWIS & BREAU, L.L.P.

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Erma R. Walton, CPA 1988
George A. Lewis, CPA* 1992
Geraldine J. Wimberley, CPA* 1995
Lawrence A. Cramer, CPA* 1999
Ralph Friend, CPA* 2002
Donald W. Kelley, CPA* 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

To the Honorable George Dupuis, Mayor,
and the Board of Aldermen
Town of Erath, Louisiana

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the Town of Erath, Louisiana as of and for the year ended June 30, 2006, which collectively comprise the Town's basic financial statements, and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Town's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Town's ability to initiate, record, process and report financial data consistent with the assertions of management in the financial statements. The reportable conditions are described in the accompanying schedule of findings and questioned costs as items #2006-1, #2006-3, and #2006-4.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable conditions described above are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Town's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed instances of noncompliance or other matters that are required to be reported under Government Auditing Standards and which are described in the accompanying schedule of findings and questioned costs as items #2006-2, #2006-4 and #2006-5.

This report is intended for the information of management, federal awarding agencies and pass-through entities. However, this report is a matter of public record and its distribution is not limited.

Broussard, Poche, Lewis + Breau, L.L.P.
Lafayette, Louisiana
August 10, 2006

TOWN OF ERATH, LOUISIANA

SCHEDULE OF FINDINGS AND QUESTIONED COSTS
Year Ended June 30, 2006

We have audited the basic financial statements of Town of Erath, Louisiana as of and for the year ended June 30, 2006, and have issued our report thereon dated August 10, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Our audit of the financial statements as of June 30, 2006 resulted in unqualified opinions.

Section I. Summary of Auditors' Results

A. Report on Internal Control and Compliance Material to the Financial Statements

Internal Control

Material Weaknesses	<u>X</u>	Yes	<u> </u>	No
Reportable Conditions	<u>X</u>	Yes	<u> </u>	No

Compliance

Compliance Material to Financial Statements	<u>X</u>	Yes	<u> </u>	No
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Section II. Financial Statement Findings

#2006-1 Segregation of Duties

Finding: The Town does not have an adequate segregation of duties in the administrative office. A system of internal control procedures contemplates a segregation of duties so that no one individual handles a transaction from its inception to its completion. While we recognize that the Town may not be large enough to permit an adequate segregation of duties for an effective system of internal control procedures, it is important that you be aware of this condition. This condition was also included in the 2005 audit as item #2005-1.

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Town should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

#2006-2 Income Requirement Related to Bonds

Finding: The Bond Resolution for the Sewer Revenue Bonds dated July 9, 1982 requires the Town to set and maintain fees, rents or other charges for the services and facilities of the System to provide revenues in each year, after paying all reasonable and necessary expenses of administering, operating and maintaining the System in such year, at least equal to 120% of the largest amount of principal and interest maturing on the Bonds in any future fiscal year. For the year ended June 30, 2006, the Town did not meet this requirement of \$56,700; they were under the amount required by \$10,947. A similar finding was reported as item #2005-2 in the prior year audit.

Recommendation: The Town should determine the reason they were unable to meet the requirement. This would involve examining both expenses and revenue. Expenses should be examined to determine if any can be reduced or eliminated without affecting the operations.

#2006-3 Mayor's Court Bond Fund

Finding: There is an inadequate segregation of duties over the operations of the Mayor's Court Bond Fund. One individual is responsible for collecting fines, preparing deposits, making deposits and preparing and signing checks. In addition, deposits are currently being made periodically rather than daily and there is no system in place to ensure that all collections are deposited or that all amounts collected are entered on a pay docket for disbursement. During the current year, we discovered that two deposits made in January 2006 were never entered on a pay docket and as a result never disbursed to the appropriate agencies. We also could not verify total deposits with pay dockets because the current system does not reconcile the two documents. Finally, although manual records are being maintained for receipts and disbursements, the Town has still not integrated this Fund into its accounting package.

Recommendation: The Town should consider purchasing software specifically designed to account for Court activity and also establish this as a fund in their accounting software. In addition, they should establish compensating controls, as appropriate, to address the segregation of duties issue.

#2006-4 Public Assistance Grant

Finding: When testing the project worksheets submitted under the Public Assistance Grant program as a result of Hurricane Rita, the following problems were identified:

1. A number of invoices were included on project worksheets as work completed but the invoices had not been paid by the Town. The total of these was \$38,195. The Town was waiting for reimbursement in order to pay. Because this is a cost reimbursement grant program, the invoices included should have been paid prior to being included on the project worksheet. In addition, one invoice in the amount of \$1,620 was for rental of radios but it appears, based on other information on file, that these radios were actually purchased under a different invoice.
2. When testing the project worksheet related to equipment usage, the rates used in the calculation did not agree to the rates in effect for this disaster. Some of the rates agreed to a 2002 schedule that the Town had on file, but we were unable to determine the reason this schedule was used and why it wasn't used for all items. In addition, the hours claimed for usage by the individual employees did not agree to the hours paid to them in the payroll system. For each employee the hours claimed in total exceeded the amount paid to them for the days in question.

3. During the course of the audit, a couple of invoices identified as being related to the hurricane, were discovered to not have been included on a project worksheet. These invoices totaled \$6,372.

Recommendation: The Town should either amend the project worksheets for the invoices not paid or pay them as soon as possible. In addition, they should review the items discussed above and take appropriate action to correct the project worksheet or document the reason the differences exist. Finally, if the program allows, a project worksheet should be prepared to claim the expenditures noted in 3 above.

#2006-5 Budget Violation

Finding: For the year ended June 30, 2006, actual expenditures exceeded budgeted expenditures in the General Fund by 18%. This is a violation of the Louisiana Local Government Budget Act.

Recommendation: The budget should be reviewed periodically during the year, and amended as necessary, to ensure compliance.

TOWN OF ERATH, LOUISIANA

SCHEDULE OF PRIOR FINDINGS
Year Ended June 30, 2006

Section I. Internal Control and Compliance Material to the Financial Statements

#2005-1 Segregation of Duties

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Town should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

Current Status: This finding is repeated in the current year at #2006-1. The Town has provided as much segregation as possible with the resources available.

#2005-2 Income Requirement Related to Bonds

Recommendation: The Town should determine the reason they were unable to meet the requirement. This would involve examining both expenses and revenue. Expenses should be examined to determine if any can be reduced or eliminated without affecting the operations.

Current Status: This finding is repeated in the current year at #2006-2.

#2005-3 Mayor's Court Bond Fund

Recommendation: The Town should create a new fund in their accounting software and record activity of the Mayor's Court Bond Fund. Bank reconciliations should be prepared on a monthly basis. Keeping in mind the limited number of employees to which duties can be assigned, the Town should monitor assignment of duties to assure as much segregation of duties and responsibility as possible. Missing records should be located and maintained in a safe place.

Current Status: A similar finding included in the current year at #2006-3.

#2005-4 Court Costs

Recommendation: The Town needs to collect court costs in an amount that ensures compliance with R.S. 33:441.

Current Status: Beginning in March of 2006, the Court reduced the cost and is now in compliance with the statute.

#2005-5 Bid Law Violation

Recommendation: Procedures should be established to ensure compliance with public bid law in the future.

Current Status: Resolved.

#2005-6 Budget Violation

Recommendation: The budget should be reviewed periodically during the year, and amended as necessary, to ensure compliance.

Current Status: This finding is repeated at #2006-5.

Section II. Internal Control and Compliance Material to Federal Awards

Not applicable.

Section III. Management Letter

The prior year's report did not include a management letter.

George Dupuis, Mayor
Robert Domingues, Mayor Pro-Tem
Donald Menard, Alderman
Billy Cormier, Alderman
Carl Broussard, Alderman
John E. LeBlanc, Alderman

TOWN OF ERATH



September 19, 2006

Carla R. Ouebedeaux, Town Clerk
Brenda Brasseux, Utility Clerk

115 West Edwards
Erath, Louisiana 70533

Phone (337) 937-8401
FAX (337) 937-5932

Mr. Steve Theriot
Legislative Auditor
State of Louisiana
Post Office Box 94397
Baton Rouge, LA 70804-9397

Town of Erath respectfully submits the following corrective action plan for the year ended June 30, 2006.

Name and address of independent public accounting firm:

Broussard, Poche', Lewis & Breau, L.L.P.
Certified Public Accountants
Post Office Box 61400
Lafayette, Louisiana 70596-1400

Audit period: July 1, 2005 through June 30, 2006.

The findings from the 2006 schedule of findings and questioned costs are discussed below. The findings are numbered consistently with the numbers assigned in the schedule. Section I of the schedule, Summary of Auditors' Results, does not include findings and is not addressed.

Section II - Financial Statement Findings

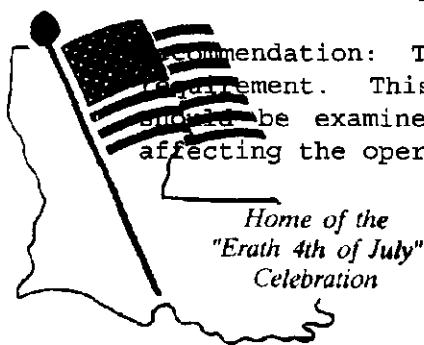
#2006-1 Segregation of Duties

Recommendation: Keeping in mind the limited number of employees to which duties can be assigned, the Town should monitor assignment of duties to assure as much segregation of duties and responsibility as possible.

Action Taken: The Town has hired a full time employee who is still in the training process. She will be taking over her duties as soon as we feel she is able.

#2006-2 Income Requirement Related to Bonds

Recommendation: The Town should determine the reason they were unable to meet the requirement. This would involve examining both expenses and revenue. Expenses should be examined to determine if any can be reduced or eliminated without affecting the operations.



Mr. Steve Theriot
Legislative Auditor
State of Louisiana
September 19, 2006
Page - 2 -

Action Taken: The Town was considering increasing the sewer rates, but due to the Hurricane no action was taken. The Town will monitor both the expenses and revenues for this coming year.

#2006-3 Mayor's Court Bond Fund

Recommendation: The Town should consider purchasing software specifically designed to account for Court activity and also establish this as a fund in their accounting software. In addition, they should establish compensating controls, as appropriate, to address the segregation of duties issue.

Action Taken: The Town will be purchasing a new software program. This will benefit the court and should help in maintaining accurate bookkeeping.

#2006-4 Public Assistance Grant

Recommendation: The Town should either amend the project worksheets for the invoices not paid or pay them as soon as possible. In addition, they should review the items discussed above and take appropriate action to correct the project worksheet or document the reason the differences exist. Finally, if the program allows, a project worksheet should be prepared to claim the expenditures noted in 3 of the finding.

Action Taken: These worksheets were checked into and were not owed by the Town. The checks were voided and FEMA was notified and the worksheets were corrected.

#2006-5 Budget Violation

Recommendation: The budget should be reviewed periodically during the year, and amended as necessary, to ensure compliance.

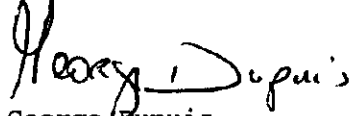
Action Taken: The budget will be monitored closely through out the year and will be adjusted accordingly.

Mr. Steve Theriot
Legislative Auditor
State of Louisiana
September 19, 2006
Page - 3 -

If the Legislative Auditor has questions regarding this plan, please call Carla R. Quebedeaux at (337) 937-8401.

Sincerely yours,

TOWN OF ERATH

A handwritten signature in cursive script that reads "George Dupuis". The signature is written in dark ink and is positioned above the printed name and title.

George Dupuis
Mayor